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C O N F I D E N T I A L SECTION 01 OF 03 ANKARA 000687

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TAGS: ENRG EPET TU

SUBJECT: TURKEY PRIORITIZES ITS OWN GAS NEEDS OVER NABUCCO

REF: A. ANKARA 623  
    1B. BRUSSELS 534  
    1C. ANKARA 490

Classified By: Economic Counselor Dale Eppler for reasons  
1.4 (B) and (D)

11. (C) Summary: In an April 8 meeting with the Ambassador, Energy Minister Guler confirmed that Turkey has offered to buy all 12 bcm of Shah Deniz Phase II gas, but said it really wants "only" 8-9 bcm. The Ambassador noted that this would leave only 3-4 bcm for transit to Europe, undermining the economics of Nabucco. Guler expressed both his determination to bring Nabucco to fruition and his frustration with the EU generally, and with EU Nabucco Coordinator van Aartsen in particular. Guler complained bitterly about van Aarsten's lack of interest in Turkey's domestic energy security and broken promises, and about the EU's opposition to Turkey's plans to develop a gas hub. The Ambassador encouraged Guler to take concrete, practical steps to bring Nabucco to fruition, and look at the gas hub as a longer-term goal. Guler said Turkey will set a cost-based tariff for gas transit to Europe.

12. (C) Summary continued: From this meeting and a follow-on meeting with the GOT Nabucco Coordinator Osman Goksel, it now appears there are now three proposals to replace Turkey's "15% of transited gas at netback prices" formula: 1) the EU's "book-building" concept, in which consumer countries form a consortium to negotiate with suppliers (Guler says the EU has refused to provide details on how this would work); 2)a private company buys Azeri gas and sells it into Turkey's domestic market (Guler discussed this recently with OMV and RWE); or 3) Turkey reaches a direct gas supply agreement with Azerbaijan. (Negotiations are ongoing). Turkey is signaling that it will look first and foremost to meeting its own energy needs, and will ignore EU efforts to "coerce" it into a deal against its interests. An EU-brokered transit agreement thus seems unlikely any time soon. End summary.

Turkey determined to realize Nabucco

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13. (C) In an April 8 meeting, Guler told the Ambassador that negotiations for Nabucco were on a fast-track. He said the GOT is fully committed and determined to move this project forward and he is personally engaged with the project's development. He met recently with the Hungarian Prime

Minister and Foreign Minister to discuss the project. He said he has also met with company representatives of RWE, OMV and MOL. Guler said that the EU would like to sign an intergovernmental agreement on Nabucco this summer. He said they are ready to sign a model EU agreement with one caveat -- they will insert language about meeting their own gas needs. He said finding a formula that will work for both the EU and Turkey is a major sticking point. Ambassador said he was encouraged by Turkish determination to shepherd the project to completion.

But Only if Turkish Energy Needs Are Met

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¶4. (C) Guler stated Turkey's gas demand forecasts. By 2012, Turkey is projected to have a 12 bcm natural gas deficit. In an April 3 meeting with Azerbaijan's state oil and gas company SOCAR, contacts at BP and Statoil told us that BOTAS (Turkish state-owned pipeline company) offered to buy all of Shah Deniz Phase II (SD II) gas volumes (assuming production levels of 12 bcm). Guler said this statement was an opening bargaining position and that Turkey was really aiming to buy "only" 8-9 bcm. The Ambassador pointed out that such high gas purchase levels by Turkey would only leave 3-4 bcm for transit to Europe, which might undermine the economic case for construction of a pipeline to Europe. Financing for SD II will not likely be available on this basis, even if the Azeris agree. For the sake of the project, the Ambassador asked Guler to re-think how best to share and divide SD II resources between Turkey and Europe. Guler responded that 8-9 bcm of Azeri gas was part of Turkey's strategy to re-balance its internal energy supply portfolio, reducing its supply from Russia. (Note: Russia currently supplies 65% of

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Turkey's gas. End note.) Guler noted that Turkey will set a cost-based tariff for gas transit to Europe and welcomed Azerbaijan sending gas to Europe.

¶5. (C) Osman Goksel, GOT Nabucco Coordinator, blurted out and was later cut off by Guler that Turkey was already paying higher gas prices than Europe (i.e. higher than the Baumgarten price \$350/tcm) so it could make a very competitive offer to Azerbaijan and the Azeris could decide whether to sell to Turkey or Europe. Goksel noted that Turkey also has the option to sell gas to Greece (Note: Turkey's contract for Shah Deniz phase I volumes, up to 6.6 bcm, includes resale rights. End note.) In a subsequent meeting, Goksel disclosed that SOCAR asked Turkey whether they would be satisfied with 4 bcm, noting that they were considering selling 4 bcm to the Turkey-Greece-Italy (TGI) pipeline and 4 bcm to the Trans-Adriatic (TAP) pipeline. Goksel noted that in his opinion, there is not enough gas in SD II development to support Nabucco.

Turkey's Frustration with the EU Mounts

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¶6. (C) Guler said that the EU views Nabucco as a "political" project, whereas Turkey views it as a commercial one. He said the EU is alternatively dangling the carrot of EU membership and waving stick of alternative pipeline projects that bypass Turkey to coerce them into signing a deal that is not in Turkey's interest.

¶7. (C) Guler also accused van Aartsen of not following through on promises. He cited three examples: van Aartsen's promise to return to Turkey after two technical EU-Turkey meetings (he did not return); his promise to help Turkey find an alternative formula to its demand for 15% of gas transiting Turkey at netback prices (EU has refused to provide technical details on its proposed "bookbuilding" model (reftel B); and his promise to send experts on energy hubs to Turkey (no experts were sent).

¶8. (C) Guler stressed that the EU doesn't care about

Turkey's energy security and that he fears that the Nabucco project could develop in a way that brings gas through Turkey but not to it. The Ambassador agreed that the project should meet Turkey's as well as Europe's energy needs and added that he had made a similar argument to EU counterparts on several occasions. He strongly urged Guler to find a solution to their gas transit issues with the Nabucco partners and with the Azeris and to do so soon.

#### Working with Nabucco Companies May Bear More Fruit

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¶9. (C) Guler said certain entities (by which we think he meant the EC) are acting as project intermediaries, misrepresenting Turkey's position and stealing valuable time away from the development of the project. He suggested that working directly with the commercial companies involved would be more fruitful and mentioned that he met recently with RWE, OMV and MOL. Those companies understood Turkey's role as a gas consumer, not just a transit state. In a subsequent meeting with Goksel, we learned that RWE and OMV have made a concrete proposal to the GOT under which OMV or RWE would sign a contract with a gas supplier like SOCAR, to buy gas at Turkey's border with Georgia and sell the gas into Turkey's domestic market. For Turkey, the advantages of this deal would be an outside entity determining the gas price, thereby relieving the Turkish government of culpability if the price is high, and it would not require legislative changes.

(Note: Turkey's gas market liberalization law calls for the dismantling of state monopoly BOTAS, and bars BOTAS from entering into new oil or gas contracts. But there is no other Turkish entity or company that could enter into a gas purchase contract anytime soon. End note.)

#### Grandiose Strategy vs. Pragmatic Steps

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¶10. (C) Turkey is continuing to pursue its goal of establishing a commercial gas hub (reftel C). Guler repeatedly told the Ambassador that Turkey is not seeking to be an intermediary between gas suppliers and customers but

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rather seeking to establish a commercially viable project which meets Turkey's growing gas needs. He complained that Europeans often misunderstand or misrepresent Turkey's position. Turkey's goal is the creation of a liberal, competitive, gas market where prices are set openly and transparently. Turkey is prepared to make the infrastructure investments necessary to bring about a hub and can't understand Europe's lack of enthusiasm for Turkey's idea given the same liberal market principles are enshrined in the EU's own energy papers. Goksel told the Ambassador that the EU has called the hub concept a "deal-breaker."

¶11. (C) The Ambassador told Guler that the realization of competitive, transparent market is a laudable, long-term goal. However, he urged Guler to take practical, concrete steps to bring Nabucco to fruition. The Ambassador emphasized that our focus should be on how the parties can reach a commercial deal that will enable the development of Azeri upstream resources, construction of Nabucco and subsequent delivery of Caspian gas to the EU and markets beyond. It is a fact that new gas from the Caspian through new routes will make EU gas markets more competitive. Guler again reiterated that Nabucco was a priority for the GOT, as is the creation of a commercial gas hub.

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